

GAO Internal Controls Standards

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JMC - On the Line



Management Control Standards

- ✓ **The GAO published new revised standards - November 1999**
- ✓ **Old GAO guidance had 11 standards.**
- ✓ **New GAO guidance has five standards.**



Federal Managers Financial Integrity Act of 1982

- ✓ **Requires that GAO issue standards for internal controls in the Federal Government.**



Terminology

- ✓ **“Internal Controls” is synonymous with the term “management control”.**
- ✓ **The term management control is used in the Office of Management and Budget (OMB) Circular A-123, DoD Directive 5010.38, and AR 11-2.**



Other Federal Government Guidance

- ✓ **OMB Circular A-123: Management Accountability and Control**
- ✓ **Government Performance and Results Act of 1993**
- ✓ **Chief Financial Officers Act of 1990**
- ✓ **Financial Management Improvement Act of 1996**



Private Sector Guidance

- ✓ Internal Control - Integrated Framework published by the committee of Sponsoring Organizations of the Treadway Commission (COSO)



Definition of Management Controls

- ✓ **Integral component of an organization's management.**
- ✓ **Provides reasonable assurance that following objectives are being achieved:**
 - **Effectiveness and efficiency of operations.**
 - **Reliability of financial reporting.**
 - **Compliance with applicable laws and regulations.**



Fundamental Management Control Concepts

- ✓ **A continuous built-in component of operations.**
- ✓ **Effected by people.**
- ✓ **Provides reasonable assurance, not absolute assurance.**



The Five Standards

- ✓ **Control Environment**
- ✓ **Risk Assessment**
- ✓ **Control Activities**
- ✓ **Information and Communications**
- ✓ **Monitoring**



Control Environment

- ✓ **Management/employees establish and maintain:**
 - **Positive Attitude.**
 - **Supportive Attitude.**
 - **Conscientious management.**



Control Environment Factors

- ✓ **Integrity and ethical values by management and staff.**
- ✓ **Management's commitment to competence.**
- ✓ **Management's philosophy and operating style.**
- ✓ **Agency's organizational style.**



Control Environment Factors (Continued)

- ✓ **Manner of how agency delegates authority and responsibility.**
- ✓ **Good human capital policies and practices.**
- ✓ **Agency's relationship with Congress and oversight agencies.**



Risk Assessment

- ✓ **Agency should assess risks:**
 - **Internal sources.**
 - **External sources.**



Control Activities

- ✓ **Management control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives.**



Examples of Control Activities

- ✓ **Top level reviews of actual performance.**
- ✓ **Reviews by management at functional or activity level.**
- ✓ **Management of human capital.**
- ✓ **Controls over information processing.**
- ✓ **Physical control over vulnerable assets .**



Examples of Control Activities (Continued)

- ✓ **Establishing and reviewing of performance measures and indicators.**
- ✓ **Separation of duties.**
- ✓ **Proper execution of transactions and events.**
- ✓ **Accurate and timely recording of transactions and events**



Examples of Control

Activities (Continued)

- ✓ Access restrictions to and accountability for resources and records.
- ✓ Appropriate documentation of transactions and management controls.



Control Activities Specific for Information Systems

- ✓ **General Control**
- ✓ **Application Control**



Information Systems

- General Control -

- ✓ **Applies to all information systems - mainframe, minicomputer, network and end-user environments.**
 - **Data center and client-server operations controls.**
 - **System software control.**
 - **Access security control.**
 - **Application system development and maintenance control.**



Information Systems - Application Control -

- ✓ **Covers the processing of data within the application software.**
- ✓ **Designed to help ensure completeness, accuracy, authorization and validity of all transactions during application processing.**



Information and Communications

- ✓ **Record and communicate information to management and others within the organization who need it.**
- ✓ **Communicate information in a timely manner and in a form that enables management to carry out their management control and other responsibilities.**



Monitoring

- ✓ **Assess quality of performance over time.**
- ✓ **Ensure that you promptly resolve the findings of audits and other reviews.**



Prompt Resolution

- ✓ **Managers are to:**
 - **Promptly evaluate findings of audits and other reviews.**
 - **Determine proper actions in response to findings and recommendations from audits and reviews.**
 - **Complete within established time frames, all actions that correct or resolve matters brought to management's attention.**



Complete Resolution

- ✓ **Complete resolution process is finished when action is taken that:**
 - **Corrects identified deficiencies,**
 - **Produces improvements, or**
 - **Demonstrates the findings and recommendations do not warrant management attention.**